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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

HENRY SCHEIN, INC., Plaintiff, v. JENNIFER COOK and PATTERSON DENTAL SUPPLY, INC., Defendants.	Case No. 3:16-cv-03166-JST **PLAINTIFF HENRY SCHEIN, INC.'S MEMORANDUM OF POINTS AND AUTHORITIES IN OPPOSITION TO DEFENDANT JENNIFER COOK'S MOTION TO DISMISS SPECIFIED CLAIMS**

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Plaintiff Henry Schein, Inc. ("HSI", "Plaintiff" or the "Company") respectfully submits this memorandum in opposition to the motion by defendant Jennifer Cook ("Cook" or "Defendant") to dismiss Plaintiff's third, sixth, seventh, eighth and ninth claims, on the ground that they are preempted by the California Uniform Trade Secrets Act ("CUTSA"), and Plaintiff's fourth claim for breach of contract on the ground that the underlying contract is unenforceable.[1]

INTRODUCTION

This matter arises out of (i) Cook's disloyal and unlawful conduct in working, while employed by Plaintiff, to divert customers to Patterson; misappropriating Plaintiff's property and confidential information, both prior to and after her abrupt resignation on May 13, 2016; breaching her agreements with, as well as her legal, equitable and contractual duties to, the Company; and (ii) Patterson's knowing and intentional involvement in, and profit from, this misconduct.

In her motion to dismiss, Cook argues that Plaintiff's claims for breach of fiduciary duty/duty of loyalty, tortious interference with prospect economic advantage, unfair competition, violation of Penal Code §502 and conversion are preempted by the California Uniform Trade Secrets Act (the "CUTSA"). Defendant's contentions fail as these claims are not simply repackaged trade secret claims, but are separately sustainable based on other and additional facts, including Plaintiff's allegations that Cook, *while still employed by Plaintiff*: solicited HSI customers on behalf of Patterson; aided Patterson in setting up accounts and stocking product for HSI customers; obtained forged Patterson credit applications for certain HSI customers; introduced Patterson's manager to her largest HSI customer, and also took tangible documents belonging to HSI when she resigned from the Company, and wrongfully accessed Plaintiff's computer network, circumventing its security by the unauthorized use of a password, following

[1] Cook does not seek dismissal of HSI's claims against her for misappropriation of trade secrets under 18 U.S.C. § 1836 (first cause of action), misappropriation of trade secrets under California Civil Code § 3426, *et seq.* (second cause of action), breach of the implied covenant of good faith and fair dealing (fifth cause of action), or civil conspiracy (eleventh cause of action). The remaining causes of action in the Complaint are asserted only against defendant Patterson Dental Supply, Inc. ("Patterson"), which has not joined in Cook's motion nor sought dismissal of any claims against it.

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her resignation.

Defendant also argues that Plaintiff's breach of contract claim must be dismissed because the letter agreement between Cook and HSI, dated February 25, 2011 (the "Letter Agreement") (*see* Complaint, Ex. 2), contains a non-compete clause that is alleged to violate Section 16600, Cal. Bus. & Prof. Code ("Section 16600"). However, Section 16600 does not invalidate an "in-term" non-compete such as that breached by Cook. Separately, the provision at issue would be enforceable even post term, pursuant to the "trade secret" exception to Section 16600. Further, even were the Court to determine that the non-solicitation provision is invalid, Plaintiff's contract claim must be sustained under Section 16600, based on Plaintiff's allegations that Cook breached other provisions of the Letter Agreement, including those requiring her to safeguard HSI's confidential information and use to her best efforts for HSI.

STATEMENT OF FACTS

I. Cook's Role at HSI and Contractual Duties

Plaintiff HSI is engaged in the business of marketing, distributing, and selling supplies, equipment and other healthcare products to dental, medical and veterinary practitioners and other healthcare professionals and organizations. First Amended Complaint (the "Complaint") at ¶6. Henry Schein Dental ("HSD") is a division of Plaintiff, which concentrates on the marketing, distribution and sales to dentists and the professional dental office. Defendant Cook was employed by Plaintiff, in its HSD division, as a field sales consultant ("FSC") from April 2005 until her sudden resignation on May 13, 2016. *Id.* at ¶¶7, 9.

As an FSC, Defendant was responsible for soliciting, servicing and selling to a group of customers assigned to her by HSI. Complaint, ¶9. During the course of her duties with respect to these customers, Cook had access to HSI's confidential, proprietary and trade secret information, including information and analysis related to products, margins, profit percentages and markets, particularly concerning the customers assigned to her, and the products those customers purchased. Complaint, ¶21. Cook's agreements with HSI required her to safeguard this confidential information and to use her best efforts to solicit customers on behalf of HSI.

Paragraph 1 of the April 30, 2005 Confidentiality and Non-Solicitation Agreement

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between Cook and HSI (the "Confidentiality Agreement") (Complaint, Ex. 1), required Cook to:

> keep confidential and not disclose to others, either during or subsequent to [her] employment, any confidential information, trade secrets, business information, software-related information, research or development information, technical or product information, pricing, costing, customer lists, supplier lists, marketing or sales information, pending acquisitions, business plans or other financial or any other matter which [she] learned through [her] association with the Company (collectively "confidential information")…

Further, pursuant to Paragraph 2 of the Confidentiality Agreement, Cook also agreed that:

> upon [her] separation from the Company for any reason, [she] would return to the Company all notebooks, memoranda, personal notes, software, hardware, other documents, discs, tapes, material or property of the Company and all other confidential information, and all copies thereof, which are in [her] possession.

Pursuant to Paragraph 1 of the Letter Agreement, Complaint, Ex., 2, Cook further agreed to use her "best efforts" on behalf of HSI to "solicit, sell to and service all customers assigned to her by [HSI]" and to "attempt to project [HSI's] name, reputation and good will, to new, prospective and existing [HSI] customers located within the geographic territory in which her assigned customers are located." Complaint, Ex. 2.

Pursuant to Paragraph 2 of the separate Letter Agreement, Cook agreed to "hold in strictest confidence any and all confidential information within her knowledge … concerning [HSI], and/or concerning the products, processes, services, business, suppliers and customers of HSI." *Id.* The Letter Agreement stated that such confidential information includes:

> financial information, sales and distribution information, the discounted prices at which products may be offered to customers; credit profiles, the sales plans which any customer is party to, other terms of such sales plans, the fact that a particular customer is or is not on a sales plan; the terms of any agreement or arrangement to which Company is or was a party, and technical information, as well as any other information that Representative learns in connection with her employ with the Company, all to the extent that such information is not readily available to the public, or is not readily and properly available to, others in trade.

Id. In addition, pursuant to Paragraph 3 of the Letter Agreement, Cook agreed that

> during her employment with HSD, and for a period of twelve (12) months after termination of [her] employment with HSD …:[Cook] will not…as an employee [or] agent of any business or entity which provides products or services that are competitive with those provided by the Company: (i) service, solicit, sell to, assist in soliciting, servicing or selling to…: (1) any Customer…that [Cook] was involving in servicing, soliciting or selling to on behalf of Company, at any time during the last twenty-four (24) months of her employ by or on behalf of the Company…; or (2) any entity or individual…with whom [Cook] was in contact in a business capacity on behalf of Company, during such twenty four (24) month

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period; (ii) ask or suggest to a Customer, that such Customer consider moving all or a portion of its business to a supplier other than HSD. *Id.*

II. Cook's Disloyal Actions While Employed by HSI

On or about April 20, 2016, while still employed by HSI, Cook entered into an employment agreement with Patterson – and concealed that fact from HSI for nearly a month. Complaint, ¶39. Thereafter, Cook began actively soliciting customers on behalf of Patterson and systematically looted HSI's confidential, proprietary, and trade secret documents and information for Patterson's benefit. For example, on May 10, 2016, Cook forwarded from her HSI email account, to a personal email account, several confidential HSI customer practice reports that were produced using HSI's proprietary software. Complaint, ¶33. Each of these reports were marked "confidential" and contained a wide array of confidential and trade secret information. *Id.* On May 12, 2016, the day before she resigned, Cook forwarded from her HSI email account, to a personal email account, numerous additional customer-related reports, including inventory reports prepared by HSI, price quotations for prospective clinics and equipment proposals that HSI was actively working on, and others. *Id.*[2]

Expedited discovery has revealed that starting in April 2016, and while employed by HSI, Cook also attempted to divert and did divert HSI customers to Patterson. To that end, Cook visited the offices of several HSI customers, introduced her HSI customers to Patterson employees, and then informed HSI customers that they would now be ordering products through Cook at Patterson. Complaint at ¶¶45, 47. Indeed, in her deposition testimony in this matter, Cook admitted that, prior to her May 13, 2016 resignation from HSI, she engaged in the following activities on behalf of Patterson: (1) on or about April 20, 2016, she informed Jeffrey Nebenzahl, a Mill Valley dentist, of her upcoming move to Patterson, and discussed Dr. Nebenzahl's openness to placing future orders at Patterson rather than through HSI [Tr. at 54:6-55:7]; (2) on or about April 21, 2016, she discussed her potential move to Patterson with Dr. Olsen—her largest HSI

[2] Notably, on May 14, 2016, after she resigned, Defendant Cook again unlawfully accessed the HSI computer system, this time using a web based app and her company credentials. Complaint at ¶37. At this time, Cook was no longer employed by HSI, and her accessing of the HSI computer system was unlawful.

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account—to determine if he would place orders through her at Patterson [Tr. at 156:1-158:6]; (3) arranged a meeting among Dr. Olsen, his son Dr. Facchino, Defendant Cook and Mark Webb, General Manager of Patterson, which took place on or about May 10, 2016, while Cook was employed by HSI, to discuss Cook's impending move to Patterson and Dr. Olsen's willingness to place future orders through Cook at Patterson [Tr. at 163:15- 169:8; 234:17-235:25]; (4) on or about May 11, 2016, directed an order from an HSI client, Dr. Cascio, to Patterson rather than HSI [Tr. at 196:11-197:7; 236:8-237:18]; (5) completed Patterson new account forms for HSI customers, including Dr. Vakili on or about May 11, 2016 [Tr. at 197:10-198:15] and Jenny Wong on or about May 10, 2016 [Tr. at 201:10-202:11] without the knowledge or permission of these customers; and (6) on or about April 29, 2016, discussed her move to Patterson with Drs. Potesta, Pasquinelli and Armel, and reported to Mark Webb of Patterson that she had "sealed" the deal with these customers, suggesting that the customers expressed a willingness to move their business from HSI to Patterson [Tr. at 217:14-222:10].[3]

Additionally, prior to her resignation from HSI, Cook forwarded 49 HSI customer files to Patterson [Tr. 208:11-213:12]. Cook admits that as of July 28, 2016, 11 or 12 of these customers switched their primary ordering from HSI to Patterson, following her move [Tr. 216:11-24].

ARGUMENT

I. Plaintiff's Third, Sixth, Seventh, Eighth and Ninth Claims Are Not Preempted by CUTSA

Defendant argues that HSI's third, sixth, seventh, eighth and ninth claims, are based on misappropriation of trade secrets, and are thus preempted by the CUTSA. Defendant's premise is wrong; these claims are based on different and additional wrongdoing by Cook, including Cook's extensive work on behalf of Patterson, and solicitation of HSI customers on behalf of Patterson while employed by HSI, which is all in addition to her theft of Plaintiff's trade secrets.

The "[C]UTSA does not displace noncontract claims that, although related to a trade secret

[3] While Defendant's deposition testimony is outside the four corners of the pleadings, it may nonetheless assist the Court in determining whether the facts alleged in the First Amended Complaint sufficiently state a claim. If the Court determines that the deposition testimony reveals facts that go beyond the pleadings, and are required to state a claim, Plaintiff respectfully requests an opportunity to file a second amended complaint to allege additional facts.

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misappropriation, are independent and based on facts distinct from the facts that support the misappropriation claim." *Angelica Textile Servs., Inc. v. Park*, 220 Cal. App. 4th 495, 506 (2013). *See also* Cal. Civ. Code §3426.7(b)(2) (explicitly stating that it does not affect "other civil remedies that are not based upon misappropriation of a trade secret."). A claim may be preempted by the CUTSA only where it is "'based on the same nucleus of facts as the misappropriation of trade secrets claim ….'" *K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc.*, 171 Cal. App. 4th 939, 958 (2009) (quoting *Digital Envoy, Inc. v. Google, Inc.*, 370 F. Supp. 2d 1025, 1035 (N.D. Cal. 2005)); *Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210, 232-36 (2010), overruled on other grounds in *Kwikset Corp. v. Sup. Court*, 51 Cal. 4th 310, 339 (2011). If a claim "retain[s] sufficient independent facts to be viable after the trade secret facts are removed," it is not preempted. *Gabriel Techs. Corp. v. Qualcomm, Inc.*, No. 08cv1992–MMA(POR), 2009 WL 3326631, at *12 (S.D. Cal. Sept. 3, 2009); *see also Jardin v. Datallegro, Inc.*, No. 10-CV-2552-IEG (WVG), 2011 WL 3300152, at *2 (S.D. Cal. July 29, 2011); *ATS Prods., Inc. v. Ghiorso*, No. C10-4880 BZ, 2012 WL 253315, at * 2 (N.D. Cal. Jan. 26, 2012). Thus, the "preemption inquiry…focuses on whether other claims are no more than a restatement of the same operative facts supporting trade secret misappropriation…If there is no material distinction between the wrongdoing alleged in a [C]UTSA claim and that alleged in a different claim, the [C]UTSA preempts the other claim." *Gabriel Techs. Corp.*, 2009 WL 3326631, at *11 (alterations in original) (original citations and quotation omitted).

Here, the claims at issue are for Cook's significant wrongdoing that is separate and additional to her many violations of the CUTSA, and accordingly, Defendant's motion to dismiss Plaintiff's third, sixth, seventh, eighth and ninth claims must be denied.

A. Third Claim – Breach of Fiduciary Duty and Duty of Loyalty

Plaintiff's claim for breach of fiduciary duty and duty of loyalty is based on Defendant Cook's extensive activity on behalf of Patterson while she was employed by HSI, including, among others: wrongful solicitation of HSI customers on behalf of Patterson while still employed by HSI; arranging and attending a meeting for Patterson's manager with her largest HSI customer, while still employed by HSI; helping Patterson set up customer accounts for HSI customers, while

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still employed by HSI; forging Patterson credit applications for HSI's customers, while still employed by HSI. The claim for breach of fiduciary duty/duty of loyalty is sustainable on these allegations alone, without regard to Cook's additional wrongful conduct in stealing HSI information. For that reason, it is not preempted by the CUTSA even though it also incorporates allegations that Defendant misappropriated Plaintiff's trade secrets and other confidential and proprietary information. *See, e.g., Angelica Textile Servs.*, 220 Cal. App. 4th at 506, 507 (finding all non-UTSA claims, including those for breach of duty of loyalty, unfair competition and interference with business relations, not preempted because "each have a basis independent of any misappropriation of a trade secret."); *Amron Int'l Diving Supply, Inc. v. Hydrolinx Diving Commc'n, Inc.*, No. 11-CV-1890-H (JMA), 2011 WL 5025178, at *9-*10 (S.D. Cal. Oct. 21, 2011) (holding breach of fiduciary duty and other tort claims not preempted); *Robert Half Int'l, Inc. v. Ainsworth*, 68 F. Supp. 3d 1178, 1190 (S.D. Cal. 2014) (breach of fiduciary duty claims not displaced by the CUTSA as they were based on facts independent of allegations of the taking or use of alleged trade secret or confidential information); *AccuImage Diagnostics Corp. v. Terarecon, Inc.*, 260 F. Supp. 2d 941, 955-56 (N.D. Cal. 2003) (permitting breach of fiduciary duty claim to proceed against board member who knew of and failed to disclose scheme to misappropriate employer's intellectual property and hire away employees); *Phoenix Techs. Ltd. v. DeviceVM*, No. C 09-04697 CW, 2009 WL 4723400, at *5 (N.D. Cal. Dec. 8, 2009) (denying motion to dismiss tort and unfair competition claims as preempted, where even though the "claims concern Defendants' misuse of information that appears to fall within the definition of a 'trade secret' under CUTSA, the Court will construe those claims as based on those facts that are not part of the nexus that forms the basis for their CUTSA claim.").

The elements of a claim for breach of duty of loyalty/fiduciary duty are: (1) the existence of a relationship giving rise to a duty of loyalty; (2) one or more breaches of that duty; and (3) damages proximately caused by such breach. *See Huong Que, Inc. v. Mui Luu*, 150 Cal. App. 4th 400, 410 (2007). Plaintiff has adequately established the requisite elements even without reference to its misappropriation allegations. First, Plaintiff has showed that Cook owed HSI a duty of loyalty from April 2005 until May 13, 2016, when she was an employee of the company.

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See id. at 414 ("[A]n employee, while employed, owe[s] undivided loyalty to his employer."); *see also Fowler v. Varian Assocs.*, 196 Cal. App. 3d 34, 41 (1987) ("During the term of employment, an employer is entitled to its employees' 'undivided loyalty'").

Second, Plaintiff has adequately alleged that Cook breached her duty of loyalty. "The duty of loyalty is breached, and the breach 'may give rise to a cause of action in the employer, when the employee takes action which is inimical to the best interests of the employer.'" *Huong Que*, 150 Cal. App. 4th at 414 (quoting *Stokes v. Dole Nut Co.*, 41 Cal. App. 4th 285, 295 (1995)). More specifically, an employee has a "duty to 'refrain from competing'" with the employer and "'from taking action on behalf of or otherwise assisting'" the employer's competitors. *Id.* at 416 (citing Restatement (Third) of Agency §8.04 (2006)). California courts routinely find breaches of the duty of loyalty where, as here, an employee transfers her loyalty to a competitor while still employed by the former employer. *See Angelica Textile Servs., Inc.*, 220 Cal. App. 4th at 499 (reversing grant of summary judgment as to breach of fiduciary duty claim where an employee, while still employed by his former employer, disparaged his employer and negotiated contract terms with customers to benefit the employee's new, competing business); *Huong Que*, 150 Cal. App. 4th at 416-17 (finding a breach of the duty of loyalty where employees covertly met with third parties to establish a competing business and engaged in efforts to steer the employer's customers to the competing business while still employed by the former employer); *E.D.C. Techs., Inc. v. Seidel*, No. 16-CV-03316-SI, 2016 WL 6216805, at *4 (N.D. Cal. Oct. 25, 2016) (denying motion to dismiss breach of duty of loyalty claim as plaintiff adequately alleged that defendant former employee, breached duty of loyalty by developing a competing business while still employed by plaintiff and using company resources); *Stokes v. Dole Nut Co.*, 41 Cal. App. 4th 285, 296 (1995) (affirming summary judgment, dismissing wrongful discharge claims and holding that former employer had good cause to terminate employees who breached duty of loyalty by preparing to establish competing business while still employed by former employer); *Fowler*, 196 Cal. App. at 41, 241 Cal. Rptr. at 543 (finding former employee breached duty of loyalty by assisting competitor in obtaining financing, or failing to disclose information about competitor's plans, to former employer).

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Plaintiff has alleged that Cook, while still employed by HSI, entered an employment agreement with Patterson (Complaint at ¶41), conducted meetings at which she introduced Patterson employees to HSI customers (*id.* at ¶3), encouraged HSI customers to transfer their accounts to Patterson (*id.* at ¶45), misled at least one customer into believing that Patterson and HSI were merging (*id.* at ¶48), and removed HSI materials, including catalogues and business cards, from the offices of HSI customers and deleted the HSI icons from their computers, so that they were unable to easily order merchandise from HSI (*id.* at ¶47). Finally, Plaintiff has alleged that it was harmed due to Defendant's breach of loyalty, in that HSI lost key customers to Patterson as a result of Plaintiff's wrongful solicitation.

These allegations do not, as Defendant claims, "ultimately arise[] from Cook's alleged access [to] and theft of trade secret and other confidential material." Defendant Cook's Memorandum of Points and Authorities, dated December 15, 2016 (ECF No. 49) ("Moving Brief"), p. 6. For these reasons, Plaintiff's third cause of action is not preempted by the CUTSA.

B. Sixth Claim – Tortious Interference with Prospective Economic Advantage

The elements of a claim for tortious interference with prospective economic advantage are: (1) an existing contractual or economic relationship, or one containing the probability of future economic benefit; (2) knowledge by the defendant of that relationship; (3) acts by defendant designed to disrupt that relationship; (4) actual disruption of the relationship; and (5) damages. *See Della Penna v. Toyota Motor Sales U.S.A.*, 11 Cal. 4th 376, 380 (1995); *Quelimane Co. v. Stewart Tile Guaranty Co.*, 19 Cal. 4th 26, 55 (1998). In addition, plaintiff must alleged that defendant "engaged in an independently wrongful act in disrupting the relationship." *Reeves v. Hanlon*, 33 Cal. 4th 1140, 1152 (2004). An act is "independently wrongful" if it is "unlawful, that is, if it is proscribed by some constitutional, statutory, regulatory, common law, or other determinable legal standard." *Id.* (quoting *Korea Supply Co. v. Lockheed Martin Corp.*, 63 P.3d 937, 954 (2003)). "The tortious conduct needed to support a claim for interference with business relations may include wrongful…customer recruitment." *Angelica Textile Servs.*, 220 Cal. App. 4th at 510 (citing *Reeves v. Hanlon*, 33 Cal. 4th 1140, 1153-55 (2004)).

As set forth in Section I-A, *supra*, Plaintiff has alleged several facts surrounding Cook's wrongful solicitation of HSI customers that do not rely on Defendant's misappropriation of trade secrets or other confidential information. For instance, Plaintiff alleged that Cook invited Patterson employees to attend meetings with customers that she solicited on behalf of HSI (Complaint, ¶3), misled at least one HSI customer into believing that HSI and Patterson were merging (*id.* at ¶48), and removed HSI materials from the offices of additional customers (*id.* at 47). Further, Cook testified that, prior to her resignation from HSI, she arranged and attended a meeting at which she introduced her largest client, Dr. Olsen, to Mark Webb the Manager at Patterson, and discussed Patterson's ability to service Dr. Olsen's account. [Tr. at 163:15-169:8; 234:17-235:25]. Cook testified that she diverted a merchandise order from Dr. Cascio, an HSI client, to Patterson while still employed by HSI. [Tr. at 196:11-197:7; 236:8-237:18]. Cook also testified that she discussed her move to Patterson, in advance, with Drs. Nebenzahl, Potesta, Pasquinelli and Armel, including the willingness of these HSI customers to transfer their business to Patterson. [Tr. at 54:6-55:7; 217:14-222:10].

Cook's actions with respect to these customers did not make use of HSI's confidential and proprietary information, as the identities of the customers that Cook solicited on behalf of HSI were known to her without reference to HSI's customer lists. For this reason, Plaintiff's tortious interference claim is distinguishable from those found to be preempted by the CUTSA in the cases cited by Defendant. *See PQ Labs, Inc. v. Yang Qi*, No. C 12-0450 CW, 2012 WL 2061527, at * 6 (N.D. Cal. June 7, 2012) (tortious interference claim limited to allegations that defendant "intentionally disrupted [plaintiff's] business relationships with its customers and distributors…by disclosing [plaintiff's] confidential customer lists to [a competitor] with knowledge that [the competitor] would contact said customers and distributors in an effort to poach sales from [plaintiff]"); *Axis Imex, Inc. v. Sunset Bay Rattan, Inc.*, No. C 08-3931 RS, 2009 WL 55178, at *5 (N.D. Cal. Jan. 7, 2009) (tortious interference claim based on allegations that defendant "learned proprietary information from [plaintiff], [and subsequently] went to work with [a competitor], which thereafter produced nearly identical [products]"); *cf. First Advantage Background Servs. Corp. v. Private Eyes, Inc.*, 569 F. Supp. 2d 929, 934-35 (N.D. Cal. 2008) (plaintiff unable to plead wrongful conduct element of tortious interference claim without reference to defendant's

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misappropriation of trade secrets); *Medimpact Healthcare Sys., Inc. v. SXC Health Solutions, Inc.*, No. 08CV590 BTM (CAB), 2008 WL 4095192, at *2-3 (S.D. Cal. Sept. 3, 2008) (tortious interference claim based on allegations that defendants used confidential customer and business information to solicit plaintiff's current and existing customers).

Plaintiff's tortious interference claim is not preempted by the CUTSA.

C. Seventh Claim – Unfair Competition

The California Unfair Competition Law ("UCL") provides a cause of action for parties injured by any "unlawful, unfair or fraudulent business act or practice." Cal. Bus. & Prof. Code §§ 17200 *et seq.* The "unlawful" prong of the UCL covers a wide range of conduct, including any business act or practice that is forbidden by "any law or regulation- federal or state, statutory or common law." *Paulus v. Bob Lynch Ford, Inc.*, 139 Cal. App. 4th 659, 681 (2006); *see also Saunders v. Superior Court*, 27 Cal. App 4th 832, 838-39 (1994); *Cmty. Assisting Recovery, Inc. v. Aegis Sec. Ins. Co.*, 92 Cal. App. 4th 886, 891 (2001). Common law tortious conduct, such as breach of fiduciary duty and/or interference with economic relations, is one type of "unlawful" conduct that can serve as the predicate for a UCL claim. *See CRST Van Expedited, Inc. v. Werner Enters., Inc.*, 479 F.3d 1099, 1107 (9th Cir. 2007) (holding that alleged interference by competitor with plaintiff's employment contracts was a business practice and that "intentional interference with contract is a tortious violation of duties imposed by law"); *Silicon Image, Inc. v. Analogix Semiconductor, Inc.*, No. C-07-0635 JCS, 2007 WL 1455903, at *9 (N.D. Cal. May 16, 2007) (citing *CRST Van Expedited*).

As set forth above, Plaintiff adequately pleaded conduct by Cook constituting breaches of her duty of loyalty to HSI and tortious interference with HSI's customer relationships. Under well-established law, this tortious conduct sufficiently supports HSI's separate cause of action for violation of the UCL. For the same reasons that HSI's breach of duty of loyalty and tortious interference claims are not preempted by the CUTSA—*i.e.*, they are based on wrongful conduct separate and in addition to misappropriation of trade secrets—HSI's unfair competition claim against Cook is not preempted. *See Phoenix Techs. Ltd.*, 2009 WL 4723400, at *5 (finding UCL action not preempted by the CUTSA).

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D. Eighth Claim – Violation of Penal Code Section 502

Defendant contends that the California courts have interpreted Section 502 of the Comprehensive Computer Data Access and Fraud Act ("CDAFA"), Cal. Pen. Code §502, as imposing liability for acting "without permission" only where the individual accesses or uses a computer, computer network, or website "in a manner that overcomes technical or code-based barriers." Moving Brief at 10 (citing *In re Facebook Privacy Litig.*, 791 F. Supp. 705, 715 (N.D. Cal. 2011) and *Facebook, Inc. v. Power Ventures, Inc.*, No. 08-cv-05780, 2010 WL 3291750 (N.D. Cal. July 20, 2010)). Defendant omits, however, that "there is a split of authority in [the Northern District of California] concerning the appropriate scope of the 'without permission' language in the CDAFA." *Opperman v. Path, Inc.*, 87 F. Supp. 3d 1018, 1054 (N.D. Cal. May 14, 2014) (Tigar, J.); *see also NovelPoster v. Javitch Canfield Group*, 140 F. Supp. 3d 954, 966 (N.D. Cal. 2014) (same).

In *Weingand v. Hardland Fin. Sols., Inc.*, No. 11-cv-03109-EMC, 2012 WL 2327660 (N.D. Cal. June 19, 2012), the court granted the defendant leave to assert a Section 502 counterclaim against the plaintiff who, after being terminated from defendant's employ, allegedly used his still-operable login information to access data on the defendant's computer system. *Id.* at *4-5. The court considered *Power Ventures*, but declined to follow it, instead rejecting the plaintiff's argument that the CDAFA counterclaim would be futile because it was only intended to apply to "hacking." *Id.; see also In re Carrier IQ, Inc.*, 78 F. Supp. 3d 1051, 1101 (N.D. Cal. 2015) ("Nothing in the *Power Ventures* decision held that overcoming 'technical or code-based barriers' designed to prevent access was the only way to establish that the Defendant acted without permission. It merely held that access of a computer network that violated a provider's 'terms of service' was insufficient to establish lack of permission, while overcoming barriers erected specifically to prevent such access was sufficient to make this showing."); *Loop AI Labs Inc v. Gatti*, No. 15-CV-00798-HSG, 2015 WL 5158639, at *4 (N.D. Cal. Sept. 2, 2015) (denying motion to dismiss CDAFA claim and following *Weingand*); *NovelPoster v. Javitch Canfield Grp.*, 140 F. Supp. 3d 954, 966 (N.D. Cal. 2014) (denying motion to dismiss CDAFA claims based on allegations that an employee used "technically-operable log-in information to access portions of a

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computer system which the individual knew he was not permitted to access"); *Hernandez v. Path, Inc.*, No. 12-CV-01515 YGR, 2012 WL 5194120, at *4–5 (N.D. Cal. Oct. 17, 2012) (acknowledging split of authority and denying motion to dismiss Section 502(c) action where parties disputed whether "without permission" as used in the statute means (a) unauthorized or (b)unauthorized access that circumvents a technical or codebased barrier).

The *Weingand* case is directly on point. There, as here, the former employer's Section 502 claims were based on allegations that an individual used technically-operable log-in information to access her former employer's computer system following the termination of her employment. *See Weingand*, 2012 WL 2327660, at *4; Complaint at ¶39 ("On May 14, 2016, after she resigned, Defendant Cook unlawfully accessed the HSI computer system using a web-based app. At this time, Cook was no longer employed by HSI, and her access to the HSI computer system was unlawful."). Defendant's unauthorized access of HSI's files on May 14, 2016, following her resignation from HSI, thus falls squarely within the sort of conduct prohibited by Section 502. Accordingly, Plaintiff's allegations are sufficient to survive a motion to dismiss. *See Facebook, Inc. v. ConnectU L.L.C.*, 489 F. Supp. 2d 1087, 1091 (N.D. Cal. 2007) (denying defendant's motion to dismiss where defendant "knowingly accessed Facebook's website to collect, copy, and use data found thereon in a manner not authorized or permitted by Facebook"); *Han v. Futurewei Techs., Inc.*, No. 11-CV-831, 2011 WL 5118748, *1 (S.D. Cal. Oct. 28, 2011) (finding illegal copying and deleting of employer's files was sufficient to state a claim under § 502).

Defendant's argument that HSI's Section 502 claim is preempted by the CUTSA is similarly without merit. Notably, Defendant has identified no case law holding that a Section 502 claim is preempted by the CUTSA, and Plaintiff has located no such case. This is not surprising given that Section 502 prohibits the improper *access* to a computer system, not the misappropriation of or other uses of the information a defendant may find on that system. *See* Cal. Pen. Code §502(a) ("It is the intent of the Legislature in enacting this section to expand the degree of protection afforded to individuals, businesses, and governmental agencies from tampering, interference, damage, and *unauthorized access* to lawfully create computer data and computer systems.") (emphasis added); *SunPower Corp. v. SunEdison*, No. 15-cv-02462-WHO, 2015 WL

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5316333, at *3 (N.D. Cal. Sept. 11, 2015) (noting that a claim under the Computer Fraud and Abuse Act, a federal statute similar to Section 502, "hinges not on the use of the information but on whether or not the employee is authorized to access the information in the first place."). Thus, HSI's Section 502 claim is not preempted by the CUTSA.

E. Ninth Claim – Conversion

"Conversion is the wrongful exercise of dominion over the property of another. The elements of a conversion [cause of action] are the plaintiff's ownership or right to possession of the property at the time of the conversion; the defendant's conversion [of the property] by wrongful act or disposition of property rights; and damages." *Farmers Ins. Exch. v. Zerin*, 53 Cal. App. 4th 445, 451 (1997) (internal citation and quotation omitted). Plaintiff's conversion claim is not preempted by the CUTSA to the extent it alleges that Cook took physical HSI company property and documents with her when she resigned, in violation of her contractual agreement to return any and all company property upon the termination of her employment. *See* Complaint at ¶¶17, 20, 117; *see also, e.g., Angelica Textile Servs.*, 220 Cal. App. 4th at 508 (conversion claim was not displaced where plaintiff argued that "even if the documents [defendant] took with him when he left [plaintiff's employ] contained no trade secrets, they were still tangible property and therefore the proper subject of a conversion claim"). Moreover, even if the tangible company documents that Cook took with her when she left HSI contained confidential or trade secret information, HSI's conversion claim is still not necessarily preempted by the CUTSA. *See E-Smart Techs., Inc. v. Drizin*, No. C 06--05528 MHP, 2009 WL 35228, at *20 (N.D. Cal. Jan. 6, 2009) (holding that the CUTSA does not preempt conversion claim to the extent it is based on conversion of tangible items belonging to plaintiff regardless of whether information contained therein is a trade secret). Thus, HSI's allegations are sufficient to establish a claim for conversion. *See U.S. Farmers Ins. Exchange*, 53 Cal. App. 4th at 451.

II. Plaintiff's Fourth Claim Should Not Be Dismissed As the Letter Agreement Is Enforceable

A. The Letter Agreement Properly Restricts In-Term Conduct

In the Letter Agreement, Cook agreed to, *inter alia*, "use her best efforts" on behalf of HSI

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to "solicit, sell to, and serve all customers assigned to her by HSD" and to "attempt to project HSD's name, reputation and good will, to new, prospective and existing HSD customers located within the geographic territory in which her assigned customers [were] located." Complaint at ¶14. Cook also agreed, pursuant to Paragraph 2 of the Letter Agreement, to "hold in strictest confidence any and all confidential information within her knowledge…concerning HSD, and/or concerning the products, processes, services, business, suppliers and customers of HSD." *Id.* at ¶15. Pursuant to Paragraph 3 of the Letter Agreement, Cook agreed that, to the extent permitted by law, she would not, while employed by Plaintiff, solicit any customer on behalf of Plaintiff's competitors, and would not ask or suggest to a customer that it consider moving all or a portion of its business to a supplier other than Plaintiff. *Id.* at ¶16. Finally, Cook agreed that, while employed by HSI and for a period of twelve (12) months thereafter, she would not "serve, sell to, solicit, [or] assist in soliciting, servicing or selling to…any Customer…or any entity" that was a customer of HSI during the twenty-four months (24) preceding Cook's termination from HSI, and "with whom [Cook] was in contact in a business capacity on behalf of [HSI], during such twenty four (24) month period." Moving Br. at p. 12.

Cook breached these and other provisions of the Letter Agreement when, *while still employed by HSI*, she solicited HSI customers on behalf of Patterson, encouraged those customers to move their business to Patterson, and downloaded Plaintiff's confidential and trade secret customer information for use in soliciting HSI's customers on behalf of Patterson. *See* Complaint at ¶¶35-38, 41-48. Cook argues, citing Cal. Bus. & Prof. Code §16600, that these breaches of the Letter Agreement should be ignored on the theory that the Letter Agreement "contains a non-compete clause that is unenforceable as a matter of public policy." Moving Brief at p. 11.

But in fact, Section 16600 only "invalidates provisions in employment contracts that prohibit 'an employee from working for a competitor *after* completion of his employment or imposing a penalty if he does so." *Applied Materials, Inc. v. Advanced Micro-Fabrication Equip. (Shanghai) Co.*, 630 F. Supp. 2d 1084, 1089 (N.D. Cal. 2009) (citing *Edwards v. Arthur Andersen LLP*, 44 Cal.4th 937, 945–46, 81 Cal.Rptr.3d 282, 189 P.3d 285 (2008) (quoting *Muggill v. Reuben H. Donnelley Corp.*, 62 Cal.2d 239, 242, 42 Cal.Rptr. 107, 398 P.2d 147 (1965)))

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(emphasis added); *see also Angelica Textile Servs., Inc.* 220 Cal. App. 4th at 509, 163 Cal. Rptr. at 204 ("[B]ecause Angelica's non-UTSA claims are based on Park's conduct *during* his employment by Angelica, contrary to Emerald's argument, they are in no sense barred by Business and Professions Code section 16600. (emphasis added)"); *Artec Grp., Inc. v. Klimov,* No. 15-CV-03449-EMC, 2016 WL 7157635, at *2–3 (N.D. Cal. Dec. 8, 2016).

Here, it is clear from the allegations in the Complaint that Cook, *while still employed by HSI*, solicited HSI customers on behalf of Patterson, encouraged those customers to move their business to Patterson, and downloaded Plaintiff's confidential and trade secret customer information for use in soliciting HSI's customers on behalf of Patterson. *See* Complaint at ¶¶35-38, 41-48. Such activity is not protected by Section 16600. *Angelica Textile Servs., supra.*

B. Section 16600, in Any Event, Would Invalidate Only a Portion of the Contract; the Balance Would be Fully Enforceable.

Even were the Court were to determine that the non-solicitation provision of the Letter Agreement is unenforceable, that is not a sufficient ground to dismiss Plaintiff's breach of contract claim; Plaintiff has also alleged that Cook breached her contractual obligation to safeguard HSI's confidential materials, and to use her best efforts in soliciting customers on behalf of HSI during the course of her employment. *See* Complaint at ¶¶14, 15. Thus, Plaintiff's breach of contract action should not be dismissed. *See PH II, Inc. v. Sup. Court*, 33 Cal. App. 4th 1680, 1682-83 (1995) (where a complaint alleged several distinct acts of malpractice, the fact that one of these acts was not malpractice was not grounds to dismiss the cause of action because it was supported by other alleged acts of malpractice).

The Letter Agreement provisions requiring Cook to safeguard HSI's confidential information, and to use her best efforts on behalf of HSI during her employment, are severable from the non-solicitation provision and are enforceable even if that provision is invalidated. *See* Cal. Bus. & Prof. Code §16600 (a contract "by which anyone is restrained from engaging in a lawful profession, trade or business of any kind is *to that extent void*") (emphasis added); *see also Winston Research Corp. v. 3M*, 350 F.2d 134, 140 n.4 (9th Cir. 1965) ("The employment agreements contained a provision restricting the right of the employee to work for a competitor of

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Mincom after termination of employment, contrary to Cal.Bus. & Prof.Code §16600. But as the district court held, under California law the void provision was severable and the remainder of the contract fully enforceable."); *Thomas Weisel Partners LLC v. BNP Paribas*, No. C 07-6198 MHP, 2010 WL 546497, at *20 (N.D. Cal. Feb. 9, 2010) (noting that a decision invaliding an entire contract based upon an impermissible non-compete "is inappropriate…[because] it contracts section 16600's plain language concerning the extent to which a contract is to be considered void."); *Jones v. Humanscale Corp.*, 130 Cal. App. 4th 401, 413 (2005) (holding that even if an allegedly unenforceable non-compete agreement was in fact void, that would not affect the enforceability of other provisions of the agreement).

California courts have applied this severability analysis to uphold contractual confidentiality provisions while striking non-compete provisions that violate Section 16600. For instance, in *Thomas Weisel Partners*, the court determined that a provision restraining a former employee from hiring his former colleagues after cessation of his employment was unenforceable. *Thomas Weisel Partners*, 2010 WL 546497, at *6. However, the court determined that the non-solicitation clause also contained permissible confidentiality and non-solicitation language which could be severed from the unenforceable "no hire" language "without requiring any rewriting of the agreement by the court." *Id.* at *7. Similarly, in *Fields v. QSP, Inc.*, No. CV 12-1238 CAS (PJWx), 2012 WL 2049528 (C.D. Cal. June 4, 2012), the court determined that contractual provisions seeking to prohibit a former employee from contacting or soliciting any fundraising organizations within a proscribed geographic territory or any former colleagues were void. *Fields*, 2012 WL 2049528, at *9. In doing so, the court made clear that "§ 16600 does not invalidate an agreement between an employer and employee that seeks to maintain the confidentiality of an employer's trade secret or other proprietary information." *Id.*

Here, the non-solicitation provision is clearly severable from the remaining portions of the Letter Agreement, as it is fully contained in Section 3 of the Agreement. And the Letter Agreement itself, at Section 5, provides that its terms are severable. *See* Complaint, Ex. 2.

C. The Trade Secrets Exception to Section 16600 Would Be Applicable Here

Finally, as this Court previously acknowledged, "some cases in the Ninth Circuit and

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California courts have recognized a trade secret exception to section 16600." ECF No. 19 at 11 (citing *Asset Mktg. Sys., Inc. v. Gagnon*, 542 F.3d 748, 758 (9th Cir. 2008); *Muggill v. Reuben H. Donnnelley Corp.*, 62 Cal. 2d 239, 242 (1965)). While this Court ultimately found that the non-solicitation clause here is likely the type of agreement invalidated by section 16600, it based its holding on the belief that the "trade secret" exception did not apply because "even though HSI has reviewed a substantial volume of the materials that Cook downloaded… it ha[d] yet to tie those materials to any specific HSI customer, much less any HSI customer Cook contacted on behalf of Patterson." ECF No. 19, at 11. Since that decision, however, expedited discovery has revealed 49 particular clients whose information Cook misappropriated from HSI's password-protected systems and shared with Patterson, and that Cook has already been successful in diverting the business of many of these HSI customers. Therefore, this is precisely the type of case where the "trade secret" exception could apply. *See, e.g., ReadyLink Healthcare v. Cotton*, 126 Cal. App. 4th 1006, 1022 (2005) (noting that "if a former employee uses a former employer's trade secrets or otherwise commits unfair competition, California courts recognize a judicially created exception to section 16600 and will enforce a restrictive covenant in such a case") (internal citations omitted); *Thompson v. Impaxx, Inc.*, 113 Cal. App. 4th 1425, 1429 (2003) ("Antisolicitation covenants are void as unlawful business restraints *except where their enforcement is necessary to protect trade secrets*.") (emphasis added) (internal citation omitted); *Fowler*, 196 Cal. App. 3d at 44 (noting that "agreements designed to protect an employer's *proprietary information* do not violate section 16600"); *Loral Corp. v. Moyes*, 174 Cal. App. 3d 268, 276 (1985) (noting that "Section 16600 does not invalidate an employee's agreement not to disclose his former employer's *confidential customer lists or other trade secrets* or not to solicit those customers") (emphasis added).

Thus, Defendant's motion to dismiss HSI's breach of contact claim should be denied.

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CONCLUSION

For the foregoing reasons, Defendant's motion to dismiss Plaintiff's third, fourth, sixth, seventh, eighth and ninth causes of action should be denied in all respects.

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Jeffrey G. Knowles

DATED: January 13, 2017 MOSES & SINGER LLP

By: /s/ Abraham Y. Skoff
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Attestation re Electronic Signatures

I, Jeffrey G. Knowles, attest pursuant to Northern District Local Rule 5-1(i)(3) that all other signatories to this document, on whose behalf this filing is submitted, concur in the filing's content and have authorized this filing. I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

DATED: January 13, 2017 COBLENTZ PATCH DUFFY & BASS LLP

By: /s/ Jeff G. Knowles
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